

CFA® SAMPLE QUESTION - LEVEL I

Economics

Q: A reserve requirement of 20% implies a money deposit expansion multiplier (potential) of:

CORRECT ANSWER:

(a) 5

The "Potential" deposit expansion multiplier is the reciprocal of the required reserve ratio.

So in our question, If the required reserve ratio is 20% (.2), the potential deposit expansion multiplier is equal to $1 / 0.2 = 5$

The actual deposit expansion multiplier is less than the potential deposit expansion multiplier for two reasons:

- Banks may not loan out all available funds (i.e. they may have excess reserves, which are reserves that exceed required reserves)
- Recipients of loans may not deposit the proceeds; they may instead decide to hold them as currency



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